

SUBCOMMITTEE NO. 1

Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland



Thursday, May 9, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

PART A

Consultant: Keely Martin Bosler

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6600 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

Item 1: Multi-Year Budget Plan and Performance Measures

Panel #1: Department of Finance
Legislative Analyst's Office

Panel #2: University of California
California State University

Previous Full Budget Committee and Subcommittee Meetings. On February 14 and March 14, respectively, the full Senate Budget Committee and Subcommittee #1 met to review the Governor's multi-year budget plans for the UC and CSU. The Governor's January proposal links base increases of \$125.1 million General Fund for each segment to the following requirements: (1) no increases in systemwide resident tuition fees through 2016-17; (2) achieving targets for unspecified performance measures. The Governor also designated \$10 million of each segment's base increase for expanding course availability through technology, and left all other spending decisions—including enrollment levels—to the segments.

Updated April Proposal from Governor. The Governor's January budget proposal, related to performance measures, was generally lacking in detail. In late April, the Governor released additional details related to the targets and performance metrics and the overarching goals of the Governor's multiyear plan for UC and CSU.

The *overarching goals* of the Governor's multi-year plan for *UC and CSU* are:

- ✓ Increase the rate and number of students who receive degrees from the universities, or those who complete certificates at the CCC and/or transfer to four-year institutions.
- ✓ Shorten the average time it takes for students to earn their degrees, so that they can graduate sooner, enter the workforce sooner, and incur less student debt to get their degree. This will also open up more slots for the segments to enroll more students, thus increasing access.
- ✓ Keep college accessible to low-income students, and increase the number of low-income students who complete college.
- ✓ Control the cost of higher education so that it stays affordable for students and the state. Increase the efficiency of higher education so that student tuition is not a "balancer" to cover perpetually rising costs.

For the following seven *performance measurements*, *UC and CSU* must increase their performance annually by specific targets and by a total of 10 percent during the four-year period of the multi-year plan:

1. Four-year graduation rates for incoming freshman;

2. Two-year graduation rates for community college transfers;
3. Number of community college transfer students enrolled;
4. Number of first-time freshmen completing degrees;
5. Number of transfer students completing degrees;
6. Number of Pell Grant recipients completing degrees; and,
7. Undergraduate degree completions per 100 full-time equivalent students.

For 2013-14, *UC and CSU* would receive the five percent augmentation in funding under the proposal if they individually provide 2011-12 academic year data on the seven performance measurements by September 1, 2013. This data (2011-12) would be then used as the base year to which future performance would be compared. In subsequent years, the Administration proposes to provide the scheduled funding increase in the Governor's January budget, but require UC and CSU to submit performance data in March of each year for the preceding academic year. If UC or CSU does not meet its target for the year, funding would be reduced at the May Revise. Each of the seven targets is equally weighted; thus, if UC or CSU meets only 6 of the 7 benchmarks for the year, it would receive 14 percent less than the overall increase.

In addition, the Administration indicates that *UC and CSU* can receive *partial funding* if they fail to hit a target but have shown some improvement since the year before, and the segment can recoup the total amount of funding lost in a previous year if it meets the following year's target.

Under the Governor's April proposal, enrollment decisions largely would be left up to UC and CSU, though the proposal requires that the universities at least maintain current enrollment levels in order to qualify for the budget augmentations.

LAO Finds Governor's Plan a Good First Step. The LAO finds that the Governor's performance measure proposal is a good first step, but needs more work. The LAO finds that the Governor's plan does contain some of the best practices identified by performance funding experts, including rewarding improvement and prioritizing outcomes for underrepresented groups. However, the LAO finds that the plan could be improved if the following issues were addressed:

- It is not aligned with broader state goals. Ideally, the plan would spring from one or more broad goals, for example, increasing educational attainment such that 55 percent of the adult population has a postsecondary degree or credential by 2025.
- It does not address actual learning outcomes or specific workforce and civic needs. For example, it does not distinguish among degrees in different fields or contain measures of quality.
- It was not developed in conjunction with institutional leaders and faculty, legislative partners, and other stakeholders.
- It affects only new funding provided over the four-year period. When no base funding has been at risk, prior performance funding models have disappeared as soon as new funding evaporated.

- By applying the same measures and the same percentage improvement targets for UC and CSU, the plan does not adequately take into account differences in institutional mission or existing differences in institutional performance.

Furthermore, the LAO notes the following additional concerns.

- Multi-year compacts initiated by governors over the last couple of decades have never been fully implemented, due to changes in the state's budget condition. The LAO finds that linking base funding to performance outcomes would be more likely to ensure performance outcomes.
- The Governor's proposed extended tuition freeze is misguided and that California's universities are still relatively affordable when compared to like-higher education institutions. Moreover, the Governor's proposal places more emphasis on not raising tuition because the consequence for doing so in any year would be forfeiting all augmentations received since 2013-14. In contrast, less severe consequences are attached to the performance measures because only one year's augmentation would be at risk and the segments could potentially earn the augmentation back in a subsequent year.
- Overall the targeted improvement levels are weak and most likely the relationship between funding and outcomes is not proportional, and some of the proposed targets are inappropriate. For example, expecting CSU to improve four-year graduation rates for first-time, full-time freshmen by only 1.4 percentage points over four years reflects extremely low expectations, even after taking into consideration the proportion of part-time and underprepared students attending CSU. A more thoughtful approach to setting targets would involve examining recent trends for the segments and their comparison institutions, and using that information to inform decisions about the segments' targets. Using this approach, a plan likely would not apply the same percentage improvement for the two segments, particularly on every performance measure.

Staff Comment. On a bipartisan basis, the Legislature has been developing, supporting, and refining proposals to create greater accountability for higher education since 2002. These actions respond to a stated need for a public agenda and improved oversight of the higher education segments. Being clearer about the goals and the measures will also highlight and drive the budget and policy decisions necessary to support the state's higher education system in meeting the state's goals.

SB 195 (Liu) is the most recent iteration of this effort. It is a reintroduction of Senate Bill 721 (2012) that outlined a process that would enable the state to measure progress and promote improvement in these areas through budget and policy decisions. SB 721 was approved by wide margins in both houses of the Legislature. It was subsequently vetoed by the Governor due to process-orientated concerns about the leadership of the working group established to identify the metrics that will measure progress towards the identified goals. SB 195 addresses this process concern by requiring an educational administrative agency designated by the Governor (as opposed to the LAO) to convene the working group.

Staff finds that the additional detail put forward by the Governor related to performance outcomes is overall in line with earlier efforts by the Legislature to define outcomes and performance measures. As the LAO indicates above, more could be done to further refine the Governor's proposal, but it is a good first step in making the UC and CSU systems more responsive and focused on outcomes.

Staff Recommendation. No action on this item is recommended today ahead of the Governor's May Revision, which is expected to be released on May 14, 2013.